

City of Seattle Voluntary Deferred Compensation Plan Regular Trust Committee Meeting Minutes

Wednesday, November 28, 2018 10:00 am – 12:00 pm
Seattle Municipal Tower, Room 4080

TRUSTEES present: Teri Allen, Jeff Davis, Glen Lee, William Alves, and Scott Fuquay (via phone)

STAFF present: Renee Freiboth, Michelle Ell, Tony Dozier, Malia Bonham from SDHR; Jeff Slayton CAO

CONSULTANTS present: Jake O'Shaughnessy and Stuart Payment, SageView Advisory Group; Michael Monaco & Gavin Parr, Mondress Monaco Parr Lockwood; Dena Herbolich and Danielle Mar, Moss Adams

GUESTS present: Kent Morris, Kristopher Morton, Andee Gravitt, and Olivia Anastasi from Nationwide; Dennis Karl, IAFF Local 27

BUSINESS

Opening: Teri Allen, the Committee Chair, started the meeting at 10:09 a.m.

Introductions: All attendees introduced themselves.

Public Comment: Michelle Ell read a public comment from participant Ralph Naess. He is concerned about the amount of fees assessed to participant accounts. He suggested potential modifications to the fee structure for the Committee's consideration.

Minutes of September 26, 2018 Regular Meeting: Teri asked for a review of the meeting minutes.

<p>MOTION: Glen Lee moved to approve the minutes as written. Motion was seconded by Bill Alves and passed unanimously.</p>

2017 Plan Audit Results: Dena Herbolich explained Moss Adams was hired by the Committee to prepare the Plan's financial statements with data provided by Prudential, Nationwide and Plan Staff. She presented the audit results for the 2017 plan year, which resulted in an unmodified or "clean" audit opinion. Since 2017 was the year of the transition from Prudential to Nationwide as recordkeeper, Moss Adams performed extensive testing and validation of the transfer of assets as well as Plan contributions, distributions, plan loans, and other financial transactions. The review also included analysis of the internal controls in place both before and after the transition from Prudential to Nationwide. In addition, Moss Adams recently added additional language to the Financial Statement regarding the recently-ratified Seattle Police Officers Guild (SPOG) collective bargaining agreement.

Nationwide Executive Summary: Andee Gravitt shared the Nationwide Executive Summary with the Committee. She mentioned there were strong market gains which resulted in plan assets increasing in the third quarter. She noted that the EZ Enroll form continues to be successful, as 70 of the 174 new enrollments this quarter used the form.

Investment Policy Statement: Jake O'Shaughnessy presented the Investment Policy Statement to the Committee for review. It included new provisions to implement a Specified Assets category of investment options. He noted that the document includes revisions and contributions from legal counsel, Jason Malinowski (SCERS) and Bill Alves. He also noted that the updated provisions would provide a mechanism for the Committee to collaborate with SageView when deciding which Specified Assets investment options to offer participants, as well as other aspects of review and consideration of such investment options.

Jeff Davis mentioned the Committee should determine best practices and guidelines when reviewing funds that are added to the Plan via the Specified Asset window. Glen Lee added that the Committee could determine the criteria used to review each specific fund added to the Specified Asset window at the time the fund is added. Sageview will provide a benchmark when recommending a fund. Guidelines for any Specified Asset will be reflected in the minutes.

Bill Alves suggested the following edits to the draft Investment Policy Statement, which were then discussed by the Committee, Mr. O'Shaughnessy, and legal counsel:

- In Section IV, update "Global Fixed Income" to read "Global/International Fixed Income."
- Also in Section IV, update "International Equity" to read "Global/International Equity."
- In the last sentence of Section IV, change the phrase "investment strategies" to "asset classes."
- In the Diversified Real Return section of the Appendices, remove the word "diversified" from the title and from the descriptive text. In addition, change the "REITS" reference to "real estate."

Jake recommended that Bill's edits be incorporated into the final version of the Policy Statement. Mike Monaco added that, together with the prior actions undertaken by the Committee, the proposed updates to the Investment Policy cover 4 of the 5 items identified as necessary to add the Specified Assets classification to the fund line-up. He stated that the remaining item for Specified Asset implementation would be the communication to participants to inform them of the difference between Specified Assets and the other Plan fund options.

MOTION: Glen Lee moved to accept the revisions as provided by Bill Alves and to approve the Investment Policy Statement with these updates. Motion was seconded by Jeff Davis and passed unanimously.

Market and Plan Investment Overview: Jake provided a market overview and mentioned Emerging Market equities are dropping but US Equities are doing well through September 30, 2018. He added that there is a good chance we won't see interest rates increase as much as expected over the next twelve months.

Jake noted tariffs, as well as labor and debt service costs continue to increase. This could eat into profits and slow down earnings growth in the US. As a result, it continues to be important for Participants to understand asset allocation and consider rebalancing frequently.

Jake stated that approximately \$1 out of every \$3 in the Plan is invested in a Vanguard Target Date fund, providing both appropriate asset allocation and low investment costs for participants. He added that this is a good sign as most participants are automatically diversified. Many other governmental plans will have 40-60% of their investments in the Stable Value fund.

Jake provided an update on the Calvert Equity Portfolio Class I Fund. He recommended that the fund continue to remain on watch status.

Jake noted that the Dodge and Cox International Stock fund has underperformed in the 1-year term, but still has above-median returns over the 3-year, 5-year, and 10-year measurement periods – including being in the top 14th percentile over the 10-year term. With that excellent long-term performance, Jake did not advise the fund to be placed on watch at this time in response to recent underperformance. Bill added the standard deviation on this fund is high so it's important to focus on the long-term benchmarks, as Jake had recommended.

Plan Expenses: Next, Jake discussed Plan expense projections. The Plan has been charging 14 basis points to each account, while refunding revenue sharing to participant accounts, for approximately 17 months. He noted the plan is projected to have at least one year's worth of expenses in the expense account by 2020. This would provide a cushion, so the Plan would not have to increase rates if there were ever an unexpected Plan expense or a significant decline in the market.

Jake stated that with the current status, he does not recommend any change to the expense ratio. He added that the Committee can continue to look periodically at the status of the Plan and its expenses. Once the Committee feels comfortable with the amount saved in the expense account, the Committee has the flexibility to consider reductions to the ongoing charges, crediting any excess amounts back to the Participants, and other options to manage the expense ratio over time while always ensuring sufficient funds available to pay ongoing Plan expenses. Teri, Scott, and the other Committee members agreed that the expense ratio should be managed to always ensure that expense charges are appropriate, and this should continue to be regularly reviewed.

Bill requested the Committee review the current fee structure for Nationwide costs and the various fee structures (e.g. Pro-Rata or Per-Head) for paying Nationwide at the next meeting.

Adjournment: Teri moved to adjourn the meeting at 11:33 am. Bill seconded, and the meeting was adjourned without objection.

Next Meeting: The next regular meeting is scheduled for Wednesday, January 23, 2018 at 10:00am in the Seattle Municipal Tower, Conference Room 4080.